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DE RUEHLO #0774 0741541
ZNR UUUUU ZZH
R 141541Z MAR 08
FM AMEMBASSY LONDON
TO RUEHC/SECSTATE WASHDC 7811
INFO RUEHBS/USEU BRUSSELS
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS LONDON 000774

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E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [UK](#)

SUBJECT: SOVEREIGN WEALTH FUNDS CREATE JOBS SAYS DEPUTY SECRETARY
KIMMITT

Summary

¶1. (SBU) Sovereign Wealth Funds (SWFs) and State-owned Enterprises (SOEs) behave differently, said Treasury Deputy Secretary Robert Kimmitt in a March 10 meeting with Michael Snyder, Chairman, City of London Policy and Resources Committee. Kimmitt said SWFs have been non-political in their instruments while SOEs like Gazprom result from a political decision to retain government ownership. Foreign direct investment in the U.S. has created ten million jobs. Kimmitt stressed the need to tell the job creation story of foreign direct investment including SWFs, to avoid unnecessary regulation. Kimmitt also urged continued UK support for the Transatlantic Economic Council (TEC). END SUMMARY

Sovereign Wealth Funds

¶2. (U) Sovereign Wealth Funds (SWFs) are run by finance experts; they are generally not political, Kimmitt said. However, they now face political pressures and criticisms. Current multilateral efforts involving the IMF, OECD, and the G-7 will bring a necessary political perspective to the dialog on SWFs.

SWFs Differ From State Owned Enterprises

¶3. (SBU) Kimmitt said that there has not been an example of an SWF investing in the U.S. for other than commercial reasons. He said also that it is important to make a distinction between SWFs (traditionally non political) and state-owned enterprises (SOEs) whose behavior could raise issues. Kimmitt said that SWFs have indicated they want to avoid political problems in the U.S. and have asked for guidance on how to structure deals to avoid problem.

¶4. (SBU) Snyder agreed with the distinction between SWFs and SOEs and mentioned Gazprom as an example of a SOE that had clearly been used for political ends. He added that Europeans do not differentiate well between SWFs and SOEs so that the European view of SWFs is tainted by the activities of SOEs like Gazprom.

¶5. (U) In addition to highlighting the behavioral differences between SWFs and SOEs, Kimmitt said that it is important to stress the job creation record of foreign direct investment (FDI) including the FDI of SWFs. Kimmitt said that FDI in the U.S. has resulted in the direct creation of five million new jobs and the indirect creation of another five million. A greater proportion of jobs resulting from FDI are also in the manufacturing sector.

¶6. (U) Snyder said that The City of London is sponsoring a London conference on March 31 jointly with the Organization for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF). He said that it would be an international conference, addressing the interests of both investor and recipient countries.

Kimmitt said the OECD was developing best practices for recipient countries and the IMF was developing best practices for investor countries. He said interim reports are expected at the February 5 G-7 meeting in Japan.

Transatlantic Economic Council

¶7. (U) In closing, Kimmitt highlighted the Transatlantic Economic Council (TEC), saying that it had great potential to promote substantive dialog on key issues like accounting. He stressed to Snyder that TEC needs continuing UK involvement.

¶8. (U) USG: Richard LeBaron, DCM; Robert Kimmitt, Deputy Secretary, Treasury; Eric Meyer, Director, Europe and Eurasia, Treasury; Rob Saliterman, Spokesman, International Affairs, Treasury; Warren Chane, Notetaker. UK: Michael Snyder, Chairman, City of London Policy and Resources Committee; Paul Sizeland, Assistant Director, Economic Development Office.

¶9. (U) Deputy Secretary Kimmitt has cleared this message.

TUTTLE